

## EXECUTIVE SUMMARY

The Arizona Department of Transportation operates the Federal Disadvantaged Business Enterprise (DBE) Program to assist disadvantaged business enterprises on contracts that use U.S. Department of Transportation (USDOT) funds. Every three years, ADOT must set an overall annual goal for participation of DBEs in those contracts.<sup>1</sup> The goal is expressed as the percentage of contract dollars that will go to firms certified as DBEs.

Through federal fiscal year 2014, ADOT has had an overall DBE goal of 7.76 percent for contracts using Federal Highway Administration (FHWA) funds. During the most recent reporting periods, ADOT has met this goal or has been close to meeting it.

Federal regulations in 49 CFR Part 26 and other USDOT guidance direct how an agency sets its overall DBE goal. The information in this Availability Study indicates a preliminary overall annual goal of 9.38 percent for the next three federal fiscal years beginning October 1, 2014. This level of overall DBE goal is similar to ADOT's DBE goal in the early 2000s. ADOT should consider all of the information in the Availability Study when setting its overall DBE goal.

### Development of the Preliminary Overall DBE Goal

ADOT selected Keen Independent Research (Keen Independent) to conduct this study. Keen Independent compiled data about availability of DBEs and other firms through interviews with more than 4,200 businesses in Arizona. Only businesses reporting their qualifications and interest in ADOT and local agency transportation-related prime contracts and subcontracts were included in the final analyses. Keen Independent also collected detailed information about prime contracts and subcontracts for more than 1,300 FHWA-funded contracts from July 2007 through June 2013. For each prime contract and subcontract, Keen Independent calculated:

- (a) Number of DBEs available for that type, size and location of work;
- (b) Total number of firms available for that work; and
- (c) Percentage DBE availability for that prime contract or subcontract, calculated by dividing (a) by (b).

Keen Independent then dollar-weighted the percentage DBE availability results for each prime contract and subcontract to develop the overall availability figure. Small prime contracts or subcontracts received the lowest weights and the largest contracts received the highest weights.

The overall goal incorporates availability of currently-certified DBEs and potential DBEs, including non-certified minority- and women-owned firms that appear that they could be DBE-certified. The 9.38 percent overall DBE goal reflects a downward adjustment from current availability results

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<sup>1</sup> Most firms certified as DBEs are minority- or women-owned firms. White male-owned firms and other ethnicities not listed above can also meet the federal certification requirements and be certified as DBEs if they demonstrate they are both socially and economically disadvantaged, as described in 49 CFR Part 26.67 (d).

(14.61%) based on factors included in USDOT guidance. (The full Availability Study contains detailed information about these data, analytical methods and potential adjustment factors.)

### **Preliminary Projection of the Portion of the Overall DBE Goal to be Met through Neutral Measures**

As part of developing an overall DBE goal, agencies such as ADOT must project the portion of their overall DBE goal that they expect to meet through (a) race- and gender-neutral means, and (b) race- and gender-conscious programs (if any).

Race- and gender-neutral measures are initiatives that encourage the participation of all businesses, or all small businesses, and are not specifically limited to minority- or women-owned firms or DBEs. Agencies must determine whether they can meet their overall DBE goal solely through neutral means or whether race- and gender-conscious measures — such as DBE contract goals — are also needed.

The first column of Figure ES-1 presents the components of ADOT's FFY 2012 through FFY 2014 overall DBE goal for FHWA-funded contracts. ADOT's projection for that time period was to achieve 2.68 percentage points of the 7.76 percent overall DBE goal using neutral measures. The remainder, 5.08 percentage points, was projected to be achieved through race-conscious means such as DBE contract goals. ADOT must now make this projection for FFY 2015 through FFY 2017.

Analysis of ADOT's recent race-neutral experience provides one way to make this projection. In FFY 2013, ADOT reported race-neutral achievement that was more than one-half of its total DBE commitments/awards for that year (58%). ADOT might project that 58 percent of its future DBE participation be met through neutral means. To make this projection, ADOT would multiply the 9.38 percent goal for FFY 2015 through FFY 2017 by 58 percent, resulting in a 5.44 percentage point projection of future neutral DBE participation. In this example, the race-conscious portion of the goal would be 3.94 percentage points ( $9.38\% - 5.44\% = 3.94\%$ ), as shown in the second column of Figure ES-1.

The example in Figure ES-1 would result in a smaller portion of the overall DBE goal to be race-conscious for the next three years compared with the projection for FFY 2012 through FFY 2014. Figure ES-1 provides just an example of a projection; ADOT should determine its projection using the detailed results in the Availability Study and other information it may have.

**Figure ES-1.**  
Current ADOT overall DBE goal and projections of race-neutral for FHWA-funded contracts and example of FFY 2015 – FFY 2017 overall goal and projections

| <b>Component of overall DBE goal</b> | <b>Current<br/>FFY 2012-<br/>FFY 2014</b> | <b>Example<br/>FFY 2015-<br/>FFY 2017</b> |
|--------------------------------------|---|---|
| Overall goal                         | 7.76 %                                    | 9.38 %                                    |
| Neutral projection                   | 2.68 %                                    | 5.44 %                                    |
| Race-conscious portion               | 5.08 %                                    | 3.94 %                                    |

## **Potential Revisions upon Completion of the 2015 Disparity Study**

ADOT should consider the overall DBE goal it sets in 2014 as preliminary. It might consider revising the overall DBE goal and projection of how it will meet the goal once results of the full Disparity Study are produced in 2015.

## **Contents of the Availability Study**

The Availability Study report describes the methodology used to collect and analyze contract data and availability data, and the step-by-step results for developing an overall DBE goal.

The report includes quantitative and qualitative information about the Arizona transportation contracting marketplace, including results from more than 20 in-depth interviews with local businesses and trade associations.

The legal framework for the Disparity Study and detailed results for the quantitative analyses are included as appendices.

## **Request for Public Comments and Future Revisions to the Draft Report**

This Draft Availability Study was released for public comment on August 4, 2014. Documents related to ADOT's proposed goal and the Availability Study are available online at [www.adotdbestudy.com](http://www.adotdbestudy.com). This website also provides information about the four public hearings to be held in August concerning ADOT's proposed overall DBE goal and the Availability Study.

Comments about the Availability Study and ADOT's proposed overall DBE goal can be sent to [info@adotdbestudy.com](mailto:info@adotdbestudy.com). Keen Independent will review comments received by September 17, including those from the public hearings, before preparing a final report for the 2014 Availability Study.

## **2015 Disparity Study**

The 2015 Disparity Study will include availability results for FTA- and FAA-funded contracts, as ADOT must set overall DBE goals for those contracts as well.

The Disparity Study will analyze the utilization and availability of minority- and women-owned firms, by race, ethnic and gender group, to determine if there are disparities in the past utilization of those firms in ADOT contracts. It will also include analysis of in-depth interviews with business owners, trade associations and others. Keen Independent will complete the study in summer 2015.